West of England

Mid year review 2009

Highlights

- **Free reserves rise to approximately $180 million**
- **Investment return of over $40 million for the year to date**
- **Releases reduced for the 2007 and 2008 policy years**
- **Lower claims so far for 2009**
- **Mutual tonnage up 4% to 53.2 million GT**

The Club's strong operating result for the first half of 2009 has been encouraging. Some stability appears to have returned both to claims activity and investment markets. Claims costs seem to be moderating, and the Club's investment portfolio has performed strongly. Tonnage has continued to grow steadily.

However, claims and investment environments remain fragile and volatile so that firm conclusions cannot be drawn from these positive developments until trends become more established. We shall continue to work closely with members and their brokers to ensure that we achieve balanced underwriting results.

Peter Spendlove, Managing Director.

Underwriting

The 2007 policy year is now forecast to have a small surplus. No further call is anticipated and the year is due to be closed in May 2010. The release has been reduced from 30% to 15%.

The 2008 policy year is also now forecast to be in surplus. The first instalment of the 45% additional call set in December 2008 will be payable in January next year and the second instalment payable in August will be reviewed by the Board at its May 2010 meeting in the light of claims developments and investment results at that time. The release has been reduced from 40% to 20%.

For 2009 claims numbers are 25% lower after six months than for the last six policy years and the cost of claims incurred to date is on average about half that of all years since 2002 at their six month stage. Preliminary figures for claims by Clubs on the Pool are lower than for 2006 and 2007.

However it will be some time before the outcome for the year can be assessed with any certainty and so the additional call and the release remain as originally forecast.

In line with our longer term strategy tonnage growth has been concentrated within fleets already entered but a number of new Members have also joined the Club since February.

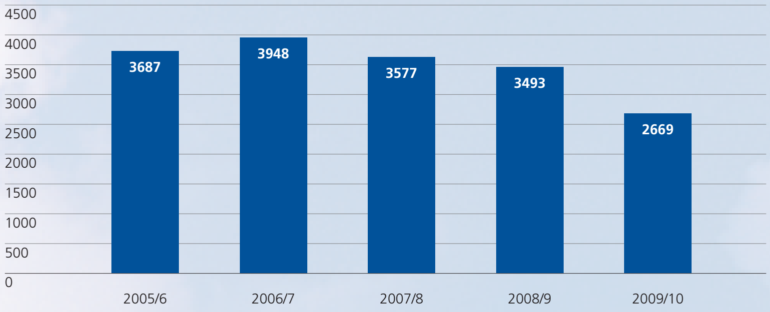
Claims

There is no easy explanation for the apparent drop in frequency and cost of claims over the last six months, not least because there is not yet an established trend. Reduction in shipping activity and falling values of ships and their cargoes may be significant factors for certain types of claim, but environmental and personal injury claims may be less influenced by the global economic downturn.

We believe that the recent reorganisation of our claims teams supported by an upgrade of our information systems scheduled for early next year will enable us in conjunction with our Members to continue to drive down the cost of third party claims.

We shall also be refocusing our loss prevention function to broaden its activities more widely across the Membership.

Number of claims per policy year at 6 month development

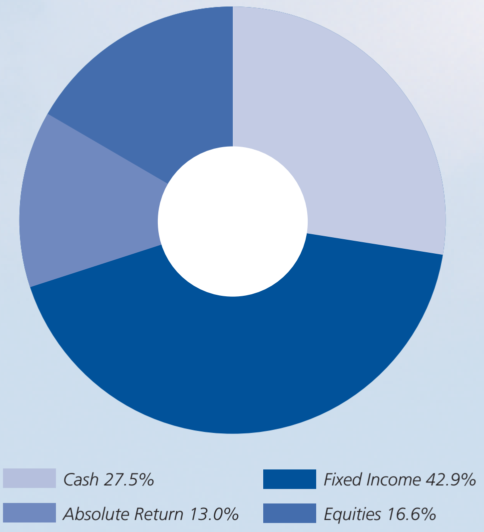


Investments

At 20th August the return on the Club's invested funds was in excess of $40 million for the financial year. This strong performance is principally the result of the decision at the end of 2008 to leave the asset allocation unchanged, with about 75% in cash and fixed income and 25% in equities and absolute return funds.

Markets appear more stable than they were in 2008, but determining their future direction remains particularly challenging and investment returns may remain volatile for some time. The investment strategy set last December has produced a return in excess of 10% to date but it is being kept under close review and will be adjusted as required to respond to the longer term effects of the economic and investment climate in the aftermath of last year's financial crisis. Particular attention will be paid to preservation and enhancement of the Club's long-term capital.

Investments by asset type at August 2009



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